



TSWELOPELE

LOCAL MUNICIPALITY

A MUNICIPALITY IN PROGRESS

VIREMENT POLICY

1. Definitions

“Accounting Officer” The municipal manager is the accounting officer of the municipality in terms of section 60 of the MFMA.

“Approved Budget” means an annual budget approved by a municipal council for implementation within a specific financial year.

“Budget-related policy” means a policy of a municipality affecting or affected by the annual budget of the municipality.

“Chief Financial Officer” means a person designated in terms of the MFMA who performs such budgeting, and other duties as may in terms of section 79 of the MFMA be delegated by the accounting officer to the Chief Financial Officer.

“Capital Budget” This is the estimated amount for capital items in a given fiscal period. Capital items are fixed assets such as facilities and equipment, the cost of which is normally written off over a number of fiscal periods.

“Council” means the council of a municipality referred to in section 18 of the Municipal Structures Act and Tswelopele Council shall have the same meaning.

“Financial year” means a 12-month year period starting from 01 July of each year ending on 30 June of the next year.

“Line Item” an appropriation that is itemised on a separate line in a budget adopted with the idea of greater control over expenditure.

“Operating Budget” The municipality’s financial plan, which outlines proposed expenditures for the coming financial year and estimates the revenues used to finance them.

“Ring Fenced” An exclusive combination of line items grouped for specific purposes for instance salaries and wages.

“Service Delivery and Budget Implementation Plan” means a detailed plan approved by the mayor of a municipality in terms of section 53(1) (c) (ii) for implementing the municipality’s delivery of municipal services and its annual budget.

“Virement” is the process of transferring an approved budget allocation from one operating line item to another, with the approval of the relevant Manager to enable budget managers to amend budgets in the light of experience or to reflect anticipated changes.

“Vote” means one of the main segments into which a budget of a municipality is divided for the appropriation of funds for the different departments or functional areas of the municipality, and which specifies the total amount that is appropriating for the purposes of the department or functional area concerned.

2. INTRODUCTION

- 2.1 Each year, the municipality produces an annual budget which must be approved by Council. In practice, as the year progresses, circumstances may change so that certain estimates are under-budgeted and others over-budgeted due to unforeseen expenditure (for example, due to the occurrence of disasters) or savings.
- 2.2 As a result, it becomes necessary to transfer funds between votes and line items. It is not practical to refer all transfers between line items within a specific vote to the Council, and as the Local Government: Municipal Finance Management Act (“MFMA”) is largely silent as to such transfers, it is necessary to establish a policy which governs the administrative transfer between line items.

3. OBJECTIVE

- 3.1 The purpose of this policy is therefore to provide a framework whereby transfers between line items within votes of the operating budget may be performed with the approval of Municipal Manager.

- 3.2 To allow limited flexibility in the use of budgeted funds to enable management to act on occasions such as disasters, unforeseen expenditure or savings, etc. as they arise to accelerate service delivery in a financially responsible manner.

4. APPLICATION OF POLICY

- 4.1 This policy applies only to transfers between line items within votes of the Municipality's operating budget. Section 28(2) (d) of the MFMA provides that *"An adjustments budget...may authorise the utilisation of projected savings in one vote towards spending in another vote."*
- 4.2 Transfers between votes may therefore be authorised only by the Council of the Municipality.
- 4.3 This policy replaces any other policies or Council resolutions as far as they may refer to virements (transfer of funds) as defined in this policy.
- 4.4 Once approved, the virement policy should form part of the Municipal Manager's formal delegations and Financial Regulations of the Municipality.
- 4.5 Transfers or adjustments falling outside the ambit of this policy must be submitted to the budget adjustment process in terms of Section 19 of the MFMA.

5. VIREMENT CLARIFICATION

- 5.1 Virement is the process of transferring budgeted funds from one line item number to another, with the approval of the relevant Manager; Chief Financial Officer and Municipal Manager, to enable budget managers to amend budgets in the light of experience or to reflect anticipated changes.

6. FINANCIAL RESPONSIBILITY

- 6.1 Strict budgetary control must be maintained throughout the financial year in order that potential overspends and / or income under-recovery within individual vote departments is identified at the earliest possible opportunity.

- 6.2 The Chief Financial Officer has a statutory duty to ensure that adequate policies and procedures are in place to ensure an effective system of financial control and therefore, the budget virement process is one of these controls.
- 6.3 It is the responsibility of each manager or Head of Department or activity to which funds are allotted, to plan and conduct assigned operations so as not to expend more funds than budgeted. In addition, they have the responsibility to identify and report any irregular or fruitless and wasteful expenditure in terms of the MFMA section 78 and 102.

7. VIREMENT RESTRICTIONS

- 7.1 No funds can be transferred between votes (GFS Classifications) and can only be done through an adjustment budget.
- 7.2 Virements may not exceed a maximum of R30 000.00 per case. Anything above that amount must be referred to the Accounting Officer for recommendation and Council approval.
- 7.3 A virement may not create new policy, significantly vary current policy, or alter the approved outcomes / outputs as approved in the IDP for the current or subsequent years.
- 7.4 Virements resulting in adjustments to the approved SDBIP need to be submitted with an adjustment budget to the Council with reviewed outputs and measurements for approval.
- 7.5 No Virement may commit the municipality to increase recurrent expenditure, which commits the Council's resources in the following financial year, without the prior approval of the Council. This refers to expenditures such as entering into lease or rental agreements e.g. vehicles, photo copiers or fax machines.
- 7.6 No Virement may be made where it would result in over expenditure.
- 7.7 No Virement shall add to the establishment of the Municipality without the approval of the Municipal Manager.

- 7.8 If the Virement relates to an increase in the work force establishment, then the Council's existing recruitment policies and procedures will apply.
- 7.9 Virements may not be made in respect of ring-fenced allocations.
- 7.10 Budget may not be transferred from Support service (interdepartmental) costs, Capital financing, Depreciation, Contributions, Grant Expenditure and Income Foregone.
- 7.11 Virements in the Capital budget allocations are only permitted within specified action plans and not across funding sources and must in addition have comparable asset lifespan classifications.
- 7.12 No virements are permitted in the first three months or the final month of the financial year except in unforeseen or unavoidable cases/situations.
- 7.13 No Virement proposal shall affect amounts to be paid to another Department without the agreement of the Manager of the Department, as recorded on the signed Virement form.
- 7.14 An approved Virement does not give expenditure authority and all expenditure resulting from approved virements must still be subject to the procurement / supply chain management policy of Council as periodically reviewed.
- 7.15 Virements may not be made between Expenditure and Income.
- 7.16 Virements may not be done on Entertainment allowance and Traveling & Subsistence votes unless the approval has been granted by the Accounting Officer in writing.
- 7.17 The total amount transferred from and to line items within a particular vote in any financial year may not exceed 10% of the amount allocated to that vote.
- 7.18 The total amount transferred from and to line items in the entire budget in any financial year may not exceed 10 % of the total operating budget for that year.
- 7.19 A transfer which exceeds, or which would result in the exceeding of, any of the limits referred to above may, however, be performed if the Council by resolution approves thereof.

- 7.20 If any line item has been specifically ring-fenced, no transfer of funds may be made under this policy to or from such line item.
- 7.21 Transfers of funds may not be made under this policy between or from capital items or projects.
- 7.22 By definition, transfers may not be made under this policy from a line item administered by one department to a line item administered by another.
- 7.23 In accordance with Section 30 of the MFMA, no transfer of funds may be made from a line item of a budget for a particular year to a line item of a budget for a subsequent year.
- 7.24 The transfer of funds in any year in accordance with this policy shall not give rise to any expectations of a similar transfer occurring in a subsequent year.
- 7.25 No transfer of funds shall be made if such transfer would constitute a transgression or contravention of any statute, regulation or other law, any policy, directive or guideline binding upon the Municipality, or the avoidance by the Municipality of any obligation imposed upon it by contract or any other cause.
- 7.26 The transfer of funds must in any event not contravene the provisions of paragraph 4.6 of MFMA Circular 51 (Municipal Budget Circular for the 2010/2011 MTREF) issued on 19 February 2010, which provides, inter alia, as follows:
- i. Virements should not be permitted in relation to the revenue side of the budget;
 - ii. Virements between votes should be permitted where the proposed shifts in funding facilitate sound risk and financial management (e.g. the management of central insurance funds and insurance claims from separate votes);
 - iii. Virements from the capital budget to the operating budget should not be permitted;
 - iv. Virements towards personnel expenditure should not be permitted;

- v. Virements to or from the following items should not be permitted: bulk purchases; debt impairment, interest charges; depreciation, grants to individuals, revenue foregone, insurance and VAT;
 - vi. Virements should not result in adding 'new' projects to the Capital Budget;
 - vii. Virements of conditional grant funds to purposes outside of that specified in the relevant conditional grant framework must not be permitted.
- 7.27 A transfer of funds from one line item to another may take place only if savings within the first-mentioned line item are projected, and such transfer may, subject in any event to the provisions of this policy, not exceed the amount of such projected savings.

8. VIREMENT PROCEDURE

- 8.1 All virement proposals must be completed on the appropriate documentation and forwarded to the Budget Office for checking and implementation.
- 8.2 All virements must be signed by the Vote holder (per department) and the Manager within which the vote is allocated.
- 8.3 Approval in terms of the above must be obtained from the Chief Financial Officer and the Accounting Officer.
- 8.4 All virements requires an approval/recommendation from the Chief Financial Officer and final approval from the Accounting Officer.
- 8.5 All documentation must be in order and approved before any expenditure can be committed or incurred.
- 8.6 Proposals for transfers may be made by the Head of Department concerned.

8.7 The Municipal Manager shall prescribe a form on which all proposals for transfers of funds under this policy shall be made, which form shall include, but not be limited to, provisions for the following:

- i. the name of the department concerned;
- ii. descriptions of the line items from and to which the transfer is to be made;
- iii. the amount of the proposed transfer;
- iv. the cause of the saving in the line item from which the transfer is to be made;
- v. the justification for the transfer;
- vi. a description of any consequences that such transfer may have for the Integrated Development Plan or the Service Delivery and Budget Implementation Plan.

8.8 Each proposal for a transfer shall be submitted by the Head of Department concerned to the Chief Financial Officer for consideration and recommendation to the Accounting Officer.

8.9 Upon a proposal for transfer being approved, such transfer shall be implemented subject to compliance with the Municipality's Supply Chain Management Policy.

9. GENERAL

9.1 The Municipal Manager shall be responsible for the implementation and administration of this Policy.

9.2 This policy will be effective on the date of adoption by Council.

VIREMENT APPLICATION FORM

KINDLY EFFECT THE FOLLOWING CHANGES/VIREMENT ON MY BUDGET:

VOTE							AMOUNT
DEBIT:							R
CREDIT:							R

Motivation: _____

Applicant / Head of
Department: _____

Date: _____

Signature: _____

Recommendation by CFO _____

Date: _____

Signature: _____

Approval by Municipal Manager: _____

Date: _____

Signature: _____

Budget amended by: _____

Date: _____

Signature: _____

